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Allan G. Andrews, C.A.
Metropolitan Auditor

THE METROPOLITAN TORONTO HOUSING COMPANY LIMITED

Report on the audit of the books and accounts for the year ended

December 31, 1983

The Municipality of
Metropolitan Toronto

Metropolitan Audit Department

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Allan G. Andrews, C.A., *Metropolitan Auditor*

May 8, 1984

**Mr. G.N. Barker, President
and Directors of The Metropolitan
Toronto Housing Company Limited**

I have examined the 1983 financial statements of The Metropolitan Toronto Housing Company Limited. These financial statements, together with my audit opinion dated May 8, 1984 addressed to the Shareholder, are attached at the end of this report. The comments in this report are framed to provide additional information to the directors as well as to the members of the Metropolitan Council.

GENERAL BACKGROUND

The Company is engaged in the construction and operation of subsidized senior citizen and family housing in the Metropolitan Toronto area. The Company's portfolio consists of the following types of projects operated under various sections of the National Housing Act:

Senior Citizens' Projects

Section 15 - limited dividend buildings

Rents are based on 20-25% of family income and all rentals are subject to rental ceilings.

Section 44 - geared to income buildings

Rents are based on 20-25% of family income as set out in a C.M.H.C. scale.

Family Projects

Section 15.1 - non-profit projects

Rents charged are equal to the cost of operations, subject to C.M.H.C. maximum rents.

Family and Senior Citizens' Projects

Section 44(1) - non-profit housing projects

Rents are based on market rates as determined by the Province.

A more detailed explanation of the capital financing of these projects is provided on pages 20 to 22.

Originally involved solely in senior citizen housing, in recent years the Company has increased the size of its operation and expanded into the field of family housing. Recent projects include new apartment complexes and townhomes and a five year renovation program of existing buildings. The status of these at December 31, 1983 and 1982 was as follows:

	1983	1982
New Housing		
Under construction at January 1	8	4
Construction started during the year	2	5
	10	9
Completed during the year	(6)	(1)
Under construction at December 31	4	8
Major Renovations		
Underway at January 1	2	4
Renovation started during the year	2	2
	4	6
Completed during the year	(2)	(4)
Underway at December 31	2	2

The commencement of operations during the year of Trimbee Court, Empringham Mews, Blake Towers, Moore Place, Riverdale Mews and the Saranac Apartments brought the total number of housing projects in operation to 71. These contained a total of 16,216 units compared to 15,363 units in operation at the end of 1982. This growth produced a need for additional staff and the approved establishment was increased by 25 field and 9 clerical staff to a total of 324.

The operations for the year resulted in a profit of $150,000, reducing the accumulated deficit to $57,000 at the end of 1983. The accumulated deficit represents operating costs which have not been recovered by subsidy arrangements or support from the Metropolitan Corporation. These costs include losses on meals provided to residents of certain projects prior to 1981, operating losses on non-profit projects operated under Section 15.1, offset by operating profit from the Eagle Manor Commercial Mall. It is expected that this deficit will be recovered from the future operations of the Commercial Mall and projects operated under Section 15.1. A summary of these operations for 1983 and 1982 is as follows:

	1983	1982
	(in thousands)	
Operating profit (loss) on projects operated under Section 15.1	$ 99	$ (92)
Operating profit from commercial mall	51	45
Net profit (loss) for the year	$ 150	$ (47)

OVERVIEW OF 1983 OPERATIONS

Status of Housing Projects

As at December 31, 1983, 75 housing projects were at the following stages of completion:

	1983		1982	
	Number	Cost (in thousands)	Number	Cost (in thousands)
Completed and operational at beginning of year	65	$261,659	64	$255,390
Renovation during the year		761		1,161
Completed and operational during the year	6	46,632	1	5,108
Construction in progress	4	24,400	8	27,806
Eagle Manor Commercial Mall		186		186
	75	333,638	73	289,651
Less:				
Accumulated depreciation		(5,895)		(5,059)
Grants		(9,107)		(9,091)
Net asset value		$318,636		$275,501

The net asset value of housing projects is, except for some minor adjustments, equal to the project financing principal outstanding (which is the long-term portion of the debt only). Interest bearing loans from the Metropolitan Corporation for Section 15 projects amounting to $2,340,000 at the end of 1983 are not repayable and this amount is not depreciated. The principal amounts will be forgiven upon maturity of the loans. With that exception, depreciation recorded during the year is equal to principal repayments due in the following year. This system assumes that each project will be fully depreciated when the related long-term financing has been repaid. This is based on the fact that the Company has title to the projects only during the financing period.

The title of all projects will be conveyed to the Metropolitan Corporation upon maturity of the first mortgage, except for the Section 15.1 projects and the Beecroft Manor site, which is leased from the City of North York. A covenant on the land precludes conveyance by North York.

The renovations on the following two projects were completed during 1983:

ACTUAL RENOVATION EXPENDITURES
(in thousands)

	At beginning of the year	During the year	Total
East York Acres	$347	$474	$ 821
Downsview Acres	370	94	464
	$717	$568	$1,285

The following renovation projects were still in progress as of December 31, 1983:

ACTUAL RENOVATION EXPENDITURES
(in thousands)

	At beginning of the year	During the year	Total
Humber Acres		$ 76	$ 76
McClain Park Apartments	$ 10	117	127
	$ 10	$193	$ 203

APPROVED FINANCING
CAPITAL PROJECTS

Under the terms of the financing agreements, new projects are considered to be in progress until the "interest adjustment" date. For projects financed by C.M.H.C. mortgages, the interest adjustment date is January 1 of the year following initial occupancy. For other projects, the date is determined by agreement with C.M.H.C. and the lender. The deficits from operations, prior to the interest adjustment date, are capitalized as part of the project cost financed by mortgage loans and are included in the actual capital expenditures. All of these projects have been approved by Metropolitan Council and arrangements for financing have also been authorized by Council.

Unit Costs

During 1983, six new projects were completed, comprising 2 senior citizens' apartments, 2 family apartments, and 2 townhouse projects. In 1982, 1 senior citizens' apartment project was completed. The capital costs of these projects include land acquisition, building construction and associated direct costs and interest during construction.

Senior citizens' buildings normally consist of a majority of bachelor apartments with a limited number of one bedroom apartments. Family-type apartments consist of one, two, and three bedroom apartments. Townhouse projects are usually made up of three and four bedroom houses.

The average cost per unit is as follows:

Type of Accommodation	Project	Average Unit Cost	CMHC Maximum Allowable Limit
		(in thousands)	
1983			
Senior Citizen Apartments	Moore Place	$43	$48
	Saranac Apartments	42	49
Family Apartments	Trimbee Court	58	60
	Blake Tower	63	59
Townhouses	Riverdale Mews	73	75
	Empringham Mews	70	76
		$54	$49
1982			
Senior Citizen Apartment	Majory Carton	$41	$49

Due to the differences in the number of units contained in the projects outlined above, unit cost may vary substantially. Basically, the larger the complex, the lower the cost per unit. Factors such as interest rates and land costs, due to size and location, also contribute to the difference in overall average costs.

In the case of Blake Towers, due to interest rates being higher than projected, the actual expenditure exceeded C.M.H.C. maximum allowable limit by $525,000. Additional financing was not approved by C.M.H.C. and, as a result, there is a permanent difference between the actual capital financing arranged and actual capital costs incurred.

As at December 31, 1983, the following four projects were under construction:

	Approved Estimated Financing	Projected Expenditures	Actual Expenditures to December 31/83
		(in thousands)	
The Edna Dixon Apartments	$ 2,282	$ 2,282	$ 1,453
Humberline Mews	11,365	11,357	6,205
Weston Manor	11,042	11,042	10,246
Rowntree Manor	15,263	15,263	6,496
		$ 39,944	$ 24,400

Housing Suites Operated

The following changes have occurred during the year:

NUMBER OF SUITES

	Section of National Housing Act					Date
	15	44	15.1	44(1)	Total	Occupied
Suites in operation at December 31, 1982	2,745	11,906	535	177	15,363	
Projects occupied during 1983:						
Moore Place		186			186	Nov . 1983
Saranac Apartments		181			181	Oct . 1983
Blake Towers				51	51	June 1983
Trimbee Court				255	255	Aug . 1983
Empringham Mews				165	165	Apr . 1983
Riverdale Mews				22	22	Dec . 1983
Reduction in Housing Units	(4)	(3)			(7)	
	2,741	12,270	535	670	16,216	

The reduction in housing units reflects conversions to larger units or office space.

The suites consist of the following types of units:

Types of Units	1983	1982
Bachelor	11,643	11,371
One bedroom	3,920	3,690
Two bedroom	252	96
Three bedroom	368	206
Four bedroom	33	-
	16,216	15,363

Included in the 16,216 units are 244 apartments used for the following purposes:

		No. of Units
Suites for the handicapped	- 3 bedroom	3
	- 2 bedroom	5
	- 1 bedroom	203
	- bachelor	14
	- 1 bedroom (used as regular apartments temporarily)	4
		229
Medical suites	- bachelor	8
	- 1 bedroom	2
Superintendent's office	- bachelor	1
Recreation rooms	- bachelor	3
Storage area	- 1 bedroom	1
		244

Since 1977, it has been company policy to include units in new projects which are wheelchair accessible. Two per cent of all units in new projects are now designed for the handicapped. At the end of 1983, 229 of these units were available (1982-192).

In addition to managing the total suites in operation, the Company manages Glenyan Manor, a 248 unit apartment complex owned by the Metropolitan Toronto Housing Authority, comprising 184 bachelor and 64 one bedroom suites.

Housing Unit Rentals

Section 44 project rentals are geared to income and are based on 20-25% of family income as set out in a C.M.H.C. scale. Some of the older buildings are still subject to rental ceilings whereby the rentals charged may not exceed a specified maximum as approved by the Board of Directors.

Section 15 limited-dividend project rents have been converted to a geared-to-income scale and rents are determined on the same basis as the Section 44 project rentals, except that all rentals are subject to rental ceilings.

Section 15.1 projects provide non-profit housing on the basis that rentals charged equal the cost of operations. The operating agreements with C.M.H.C. and the Province establish the rents that may be charged by the Company. These rents are based on the estimated operating costs of each project. Adjustments to rentals to cover costs must be approved by the Province. As indicated on page 23, rentals may be reduced by applying the Provincial rent reduction grants and rent supplements to individuals and families of low or moderate income.

Section 15.1 projects by and large offer a more varied rental structure and are geared to a broader range of clientele than the Section 15 and Section 44 projects. For example, Mabelle Place has two and three bedroom units with maximum rentals of $458 and $558 respectively. Senator David A. Croll has bachelors, one and two bedroom units with varying rental rates based on the size of the apartment. Up to 50% of the subsidized units in the latter project are reserved for senior citizens.

Section 44(1) projects provide non-profit housing on the basis of market rental rates as determined by the Province. As indicated on page 24, a maximum of 25% of the units may receive rent subsidies. Cooper Mills Townhomes, which opened in 1981, has one, two and three bedroom townhomes with maximum rentals of $435, $527 and $581 respectively.

Hotel Food Operations

The operating and subsidy agreements with C.M.H.C. for all Section 15 and 44 projects exclude the cost of the hotel food operations from the calculation of the annual subsidies. Three apartment projects have hotel type units:

		NO. OF UNITS
Section 15	Robert J. Smith Hotel	102
Section 44	Willowdale Manor	80
	College View Apartments	74
		256

Monthly tenant board was increased from $131 to $165 per person effective April 1, 1983. individual meals are also sold.

From 1981, the Metropolitan Corporation has been subsidizing the losses on the food operations. The actual food losses for 1983 were $197,198.

In addition to the direct profit and loss on operations, the salaries and wages of other building personnel (mostly in R.J. Smith Hotel) may be partially attributable to the food operations. Management takes the view that since these costs are not incremental because of the food operations, but rather allocations of existing building costs, they should qualify for subsidy and they have been so treated in the financial statements.

Commercial Malls

As at December 31, 1983, there were seven commercial malls which were being operated by the builders of the properties for a nominal annual charge for a period of fifty years.

PROJECT	BUILDER	DATE OF INCEPTION
College View Apartments	Revenue Properties Ltd.	1971
Griggs Manor	Revenue Properties Ltd.	1977
Kensington Manor	Cadillac Fairview Corporation Ltd.	1979
Beverley Manor	Belmont Construction Ltd.	1979
Cooper Mills	Dundas-Scarlett Developments	1981
Montgomery Place	Tower Glen Developments	1981
Doug Saunders	Yonge-Ranleigh Investment	1982

The retention of the rights to operate the commercial mall has by and large been one of the conditions in the original proposal for building the project. The mall operators retain all revenue and pay all costs, including realty taxes, of the mall operations.

In 1977, a leasehold interest in the commercial mall of the Eagle Manor Apartments, originally retained by the builder, was relinquished and the operation assumed by the Company. The amount owing by the builder under the terms of the lease and the costs of subsequent improvements and renovations have been capitalized. The revenues and costs of this mall operation accrue to the Company and are excluded from the determination of operating subsidies.

At the Arleta Manor, Wm. Dennison, Woods Manor and Moore Place projects, the Company operates convenience malls of one, two or three units. By agreement with C.M.H.C., the operations of these units are considered to be part of the project operations for subsidy purposes. The Senator David A. Croll Apartments, which commenced operations during 1980, include a commercial mall. This being a non-profit project operated under Section 15.1, operating costs of this mall are recovered from rental revenues.

COMMENTS ON SELECTED ITEMS IN FINANCIAL STATEMENTS

STATEMENT OF REVENUE, EXPENDITURE AND DEFICIT

Rents: Residential $33,537,000 (1982 - $28,228,000)
Commercial $624,000 (1982 - $604,000)

Increase in rental revenue was mainly due to the following reasons:

1. Rental of one new building for the whole year in 1983 compared to part of the year in 1982 and the opening of four new buildings at various times throughout the year.

2. Modification of rent assessment whereby rents based on monthly income in excess of $500 were changed from 22½% to 25%.

3. Increases in Old Age Security and supplements results in increases in tenants monthly income and accordingly increases rents which are based on income.

FEDERAL INTEREST REDUCTION GRANTS - $1,850,000 (1982 - $937,000)

The increase in this operating subsidy of $913,000 was due to three new projects (Blake Tower, Trimbee Court and Empringham Mews) coming into operation in 1983. See page 24 for further details in connection with this grant.

OTHER REVENUE

	1983	1982
	(in thousands)	
Interest	$ 172	$ 454
Non-tenant parking	34	20
Commission from non-owned laundry equipment	88	78
Miscellaneous	73	17
Sale of meals	42	26
	$ 409	$ 595

Interest

This reflects interest income earned on balances in the Housing Company bank accounts. The decrease in interest from 1982 is due mainly to reduced amounts held in bank accounts and the reduction in interest rates.

Commission from Non-Owned Laundry Equipment

The commission is based on a percentage of gross receipts and is separately negotiated for each building.

Miscellaneous

Included in miscellaneous revenue is the management fee of $47,070 charged to the Province of Ontario for Glenyan Manor.

OPERATING EXPENSES

	1983	1982
Janitorial labour and material	$ 5,771,891	$ 5,154,475
Utilities	6,691,881	5,941,372
Equipment	530,064	410,217
Grounds	238,664	235,529
Security	298,301	269,552
Waste disposal	38,530	44,128
Social and recreational	777,849	686,289
Land rental	25,006	22,964
Food costs	634,854	592,154
Equipment Replacement Fund appropriation	113,507	80,216
Bad debts	34,245	5,654
Sundry	1,183,439	788,588
	$16,338,231	$14,231,178

In addition to general inflationary increases, most of these costs were impacted by the four buildings which became operational in 1983.

MAINTENANCE

	1983	1982
Buildings	$ 2,637,500	$ 1,391,355
Equipment repairs	1,747,530	1,392,865
Elevators	306,732	329,677
Grounds	188,857	209,933
Painting - Interior/Exterior/Public Areas	209,511	157,133
Painting - Apartments	487,482	420,693
Repairs	515,585	417,976
Sundry	101,603	47,224
	$ 6,194,802	$ 4,366,856

The maintenance expenditure includes both capital improvement to the various projects and minor repairs and replacements. The substantial increase in building maintenance costs was due mainly to the extensive renovations, upgrading of bath rooms and replacement of roofing in a number of projects.

ADMINISTRATION AND OTHER

	1983	1982
Salaries and fringe benefits	$ 3,215,825	$ 2,552,490
Space rental	335,032	279,750
Data processing	203,948	207,388
Travel and vehicle allowance	66,030	52,357
Furniture and equipment	57,635	94,445
Telephones	77,292	66,130
Publication and printing	51,296	69,254
Postage	20,780	23,488
Office supplies, fees, interest, etc.	153,500	115,753
Workshop, lease improvements, etc.	90,767	71,890
Total Administration Cost	$ 4,272,105	$ 3,532,945
Less: Charged to Buildings for Support Services	(1,021,919)	(611,524)
Charged to Capital Construction	(286,275)	(240,607)
Charged to Glenyan Manor		(41,404)
Net Administration Costs	$ 2,963,911	$ 2,639,410

Administration cost variances are due to increase in staff, cost of living and seniority increases.

CAPITAL FINANCING

Long Term Financing of Apartment Projects

The capital costs of the most recent apartment projects undertaken by the Company are being financed by mortgage loans from private lenders, guaranteed by the Canada Mortgage and Housing Corporation (C.M.H.C.). These loans are for 100% of the capital costs of the project. Interim financing is provided by temporary loans from the Metropolitan Corporation.

For projects started prior to 1979, the capital costs of each project have been financed by a combination of mortgage loans from the Federal Government made under the National Housing Act through C.M.H.C. and long term loans from the Metropolitan Corporation. The amount of mortgage loans made by C.M.H.C. varied depending on the sections of the National Housing Act under which the projects were financed and operated. For limited-dividend projects operating under Section 15, C.M.H.C. financed 95% of the capital costs. For geared-to-income projects operating under Section 44, the C.M.H.C. financing was for 90% of the cost. The Metropolitan Corporation financed the balance of the capital costs in either case. Non-profit housing projects were financed 100% by C.M.H.C.

Up to 1976, grants towards capital financing were received from the Province of Ontario under the Elderly Persons Aid Act. These were discontinued when the Ministry of Municipal Affairs and Housing agreed to contribute towards the operating deficits of the Company's projects.

The recent mortgage loans from private lenders are amortized over a period of 35 years. The C.M.H.C. mortgage loans are amortized over a period of up to 50 years, but not exceeding the useful life of the project. Prepayment privileges exist for mortgages entered into since 1964. Long term financing by the Metropolitan Corporation (with the exception of some early projects) carries the same interest terms as the C.M.H.C. mortgages and for Section 44 projects, the same repayment terms.

In addition to mortgage financing, the Federal Government has provided certain grants for projects financed under Sections 15.1 and 44(1) of the National Housing Act. The following grants have been provided through C.M.H.C.:

(i) Capital Reduction Grant under the C.M.H.C. Community Services Contribution Program under which 10% of the mortgage loan is forgiveable.

(ii) Federal Interest Reduction Grant - Strictly speaking, this is an operating subsidy. Under this program, grants are made to reduce the effective rate of interest on the mortgages to a preferred rate, currently 8% for up to 50 years. In the case of the 44(1) projects, grants may be received to cover losses for up to 35 years, the maximum grant being an amount which would reduce the mortgage carrying costs to the equivalent of a 2% mortgage interest rate.

(iii) Residential Rehabilitation Assistance Program - Additional funding may be obtained up to $2,500 per unit for the conversion of existing residential buildings into non-profit housing. Such loans are forgiveable at prescribed rates provided that the terms of the operating agreements with C.M.H.C. for the project are complied with.

Short-Term Financing of Apartment Projects

The Company receives short-term funds from the Metropolitan Corporation as start-up funds for potential projects. Amounts up to $100,000 (increased to $200,000 in February 1984) are advanced prior to the receipt of necessary approvals from C.M.H.C. Interest is charged from the date of the first advance.

The Metropolitan Corporation also provides temporary loan financing during the construction period. The amount of such financing has a ceiling specified by agreement and start-up funds, once approvals from C.M.H.C. are received, become part of this temporary financing. These loans bear interest at the average monthly rate paid by the Metropolitan Corporation, and are reduced as the mortgage funds are advanced.

Financing of Renovations

During 1980, the Company started the first phase of a five year program to carry out major renovations on a number of its older projects. These renovations are financed by long-term loans from the Metropolitan Corporation. These loans bear interest at rates equal to the rates charged by C.M.H.C. for public housing loans at the time the contract is awarded and are amortized over the remaining life of the original financing on each project.

Other Metropolitan Corporation Capital Financing

Certain forms of indirect financing of projects by the Metropolitan Corporation also exist.

The Metropolitan Corporation has in the past provided sites for several projects without cost to the Company. This method of financing is not being used for new projects.

For Section 15 projects, the long-term loans are not repaid but remain as permanent advances. The principal amounts will be forgiven upon maturity.

FINANCING OF OPERATIONS

Operating Subsidy Agreements

Net operating costs of Section 15 and Section 44 projects are now subsidized entirely by the Federal Government (through C.M.H.C.) and the Province of Ontario (through the Ministry of Municipal Affairs and Housing). The two senior levels of government share the subsidies equally, although all of the Section 15 subsidy is paid by the Province on behalf of itself and C.M.H.C.

Prior to April 1, 1980, Section 15 and 44 operations were subsidized 50% by C.M.H.C. and 42½% by the Province of Ontario, with the Metropolitan Corporation subsidizing the remaining 7½% of the net loss. Effective on that date, the Province of Ontario agreed to absorb the municipality's 7½% share.

Non-Profit Housing

Section 15.1 Projects

These projects generally charge rents sufficient to recover the costs of operations and consequently require no general subsidy from any of the three levels of government. However, there are two specific programs which may reduce rentals charged by the Company to its tenants:

(a) Rent Reduction Grants

The Province of Ontario, through the Community Sponsored Housing Branch of the Ministry of Municipal Affairs and Housing, provides financial assistance which is applied to lower the rents for all units in the project. This assistance is based on a grant of 10% of the capital value of the project. The grant is amortized and paid to the Company

over the first fifteen years of the project's life so that it provides a higher initial impact on rent levels, with lesser amounts paid in the later years of the grant's amortization period. To qualify for the full amount of this grant, the Company must agree to make at least 25% of the units in the project available for the rent supplement program described in the following paragraph.

(b) Rent Supplements

Rents of certain tenants are supplemented under a program designed to assist in the provision of housing accommodation to individuals or families of low or moderate incomes at rents that are less than those required to meet the operating costs of the project. Rents are geared to the tenant's income and the costs of the rent supplement are claimed through the Provincial government.

Until April 1, 1980, the municipality in which a project was located was required to contribute a share of the rent supplement costs and under a general agreement, the Metropolitan Corporation contributed 7½% of total rent supplement costs to the Province. Such contributions are now no longer required.

Section 44(1) Projects

This is a Non-Profit Housing program that charges "low end of market" rental rates, except for 25% of the units which receive rent supplements.

The annual operating losses are funded as follows:

(1) In the operating agreement with the Federal Government, a maximum amount is specified in the form of an interest reduction grant, whereby the mortgage carrying costs may be written down to a maximum of a 2% mortgage interest rate.

(2) If the Federal Government's interest reduction grant is not sufficient to meet the operating loss, the Province of Ontario will provide an amount up to the Federal Government's contribution.

In the event that the subsidies outlined above prove insufficient, the Federal and Provincial governments will share the balance of the operating deficits on an equal basis.

GENERAL COMMENTS

1. Insurance

(a) For public liability, the Company is protected for claims up to $25 million for each occurrence.

(b) A boiler and machinery policy with an insurance company protects the Company for up to $10 million per accident.

(c) A composite property policy with a group of insurance companies protects the Company for up to $50 million from claims for any one fire or other loss covered, including glass, and up to $500,000 for loss of valuable papers and records, excluding money and securities.

(d) For losses owing to officers' or employees' dishonesty, the Company is protected by a policy to a maximum of $1,000,000 for each person and for loss through forgery on a bill of exchange to a maximum of $100,000 for each occurrence. (Other loss of money and securities is covered to a maximum of $25,000).

(e) Deductibles apply to all the above policies and the Metropolitan Corporation maintains a self-insurance reserve fund from which such losses are to be repaid to the pertinent organizations.

For the insurance coverage described above, premium payment is made to the Metropolitan Corporation by the Company as a named insured in the policies arranged by the Corporation for itself and related entities.

Projects under construction are at the risk of the contractors until completed and turned over to the Company.

2. Management Letter

I am issuing a separate report to management commenting on accounting procedures and internal control.

3. Status of Staff

On January 1, 1975, the staff of the Company became employees of the Metropolitan Corporation. The Company pays to the Corporation the employee costs when billed.

4. Remuneration of the President of the Company

The By-laws of the Company, as approved by the Metropolitan Council, provide that the Director of the Company who is elected President shall be paid remuneration at the rate of $6,090 per annum. Effective December 1, 1983, this was increased to $6,394. Any incidental expenses incurred by Board Members are paid by the Metropolitan Corporation.

METROPOLITAN AUDITOR

The Municipality of
Metropolitan Toronto

Metropolitan Audit Department

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Allan G. Andrews, C.A., *Metropolitan Auditor*

May 8, 1984

AUDITOR'S REPORT

To the Shareholder
The Metropolitan Toronto Housing Company Limited

I have examined the balance sheet of The Metropolitan Toronto Housing Company Limited as at December 31, 1983 and the statements of revenue, expenditure and deficit and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Company as at December 31, 1983 and the results of its operations and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted for Ontario municipalities applied on a basis consistent with that of the preceding year.

CHARTERED ACCOUNTANT

THE METROPOLITAN TORONTO HOUSING COMPANY LIMITED

BALANCE SHEET

DECEMBER 31, 1983

ASSETS

	1983	1982
	(in thousands)	
CURRENT ASSETS		
Cash (note 3)	$ 3,801	$ 3,918
Accounts receivable (note 4)	23,062	20,879
Inventory	35	16
Prepaid expenses	1	35
	26,899	24,848
HOUSING PROJECTS (note 5)	318,636	275,501
ORGANIZATIONAL EXPENSES	1	1
	$ 345,536	$ 300,350

(see accompanying notes)

THE METROPOLITAN TORONTO HOUSING COMPANY LIMITED

BALANCE SHEET

DECEMBER 31, 1983

LIABILITIES AND SHAREHOLDER'S EQUITY

	1983	1982
	(in thousands)	
CURRENT LIABILITIES		
Accounts payable (note 6)	$ 26,468	$ 24,815
Rents received in advance	151	162
Special funds (note 3)	363	234
	26,982	25,211
PROJECT FINANCING (note 7)	318,610	275,345
SHAREHOLDER'S EQUITY (note 2)		
Capital Stock		
Authorized - 10,000 common shares of $1 par value		
Issued - 701 shares	1	1
Deficit	(57)	(207)
	(56)	(206)
	$ 345,536	$ 300,350

On behalf of the Board:

Director

Director

(see accompanying notes)

THE METROPOLITAN TORONTO HOUSING COMPANY LIMITED
STATEMENT OF REVENUE, EXPENDITURE AND DEFICIT
FOR THE YEAR ENDED DECEMBER 31, 1983

	1983	1982
	(in thousands)	
REVENUE		
Rents		
Residential	$ 33,537	28,228
Commercial	624	604
Tenants' board	403	356
Provincial rental reduction grants	223	225
Federal interest reduction grants	1,850	937
Other	409	595
	37,046	30,945
EXPENDITURE		
Municipal taxes	9,563	8,673
Insurance	65	64
Operating expenses	16,339	14,231
Maintenance	6,195	4,367
Administrative and other	2,964	2,639
Mortgage and loan interest	24,679	22,259
Depreciation	836	669
	60,641	52,902
NET LOSS BEFORE SUBSIDIES	(23,595)	(21,957)
OPERATING SUBSIDIES		
Canada Mortgage and Housing Corporation	11,681	10,815
Province of Ontario	11,867	10,889
Municipality of Metropolitan Toronto	197	206
NET PROFIT (LOSS) FOR YEAR	150	(47)
DEFICIT AT THE BEGINNING OF YEAR	(207)	(160)
DEFICIT AT THE END OF YEAR	$ (57)	$ (207)

(see accompanying notes)

THE METROPOLITAN TORONTO HOUSING COMPANY LIMITED
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1983

	1983	1982
	(in thousands)	
SOURCE OF FUNDS		
Net profit (loss) for year	$ 150	$ (47)
Add: Depreciation, a non-cash expense	836	669
	986	622
Increase in project financing	43,281	32,971
	44,267	33,593
APPLICATION OF FUNDS		
Expenditures on housing projects	43,987	32,252
INCREASE IN WORKING CAPITAL	280	1,341
WORKING CAPITAL DEFICIENCY AT BEGINNING OF THE YEAR	(363)	(1,704)
WORKING CAPITAL DEFICIENCY AT END OF THE YEAR	$ (83)	$ (363)

(see accompanying notes)

THE METROPOLITAN TORONTO HOUSING COMPANY LIMITED
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1983

1. ACCOUNTING POLICIES

(a) Housing Projects

Housing projects are valued at cost, less capital contributions from government and other sources and accumulated depreciation. Costs include the original cost of acquisition of land and buildings and other related costs, the cost of improvements necessary to renovate and rehabilitate buildings, where applicable, and net operating expenses of each project up to the completion date for mortgage adjustment purposes.

Government sources provide project financing or guarantee financing from private lenders. In order to comply with municipal accounting policy, depreciation on housing projects is recorded in amounts equal to capital financing principal repayments due in the following year.

With minor exceptions, the financing agreements between the Company and the Municipality of Metropolitan Toronto provide that the title to the land, buildings and equipment of each project will be transferred to the Metropolitan Corporation for the sum of $1.00 at the time the Canada Mortgage and Housing or other mortgage financing for the project is repaid.

(b) Inventory

Inventory is valued at cost on a first in, first out basis.

2. COMPANY'S STATUS

The Company is a non-profit organization incorporated under the laws of Ontario and is wholly owned by the Municipality of Metropolitan Toronto.

3. SPECIAL FUNDS

Special funds are amounts held for special purposes and not available for ordinary operating expenditures of the Company. Expenditures of such funds are charged against the applicable fund balance.

The balance of the special funds are as follows:

	1983	1982
	(in thousands)	
Equipment replacement fund	$ 338	$ 208
Consolidated tenants' benefit fund	$ 25	26
	$ 363	$ 234

The equipment replacement fund is provided by periodic charges against operations in accordance with the terms of the operating agreements with Canada Mortgage and Housing Corporation and the Province of Ontario's Ministry of Municipal Affairs and Housing for those projects operated under Sections 15.1 and 44 (1) of the National Housing Act.

The consolidated tenants' benefit fund is used to segregate certain receipts of the Company which are retained for use for the benefit of tenants.

Separate bank accounts, included with other cash on the balance sheet, are maintained for the special funds.

4. ACCOUNTS RECEIVABLE

This consists of:

	1983	1982
	(in thousands)	
Municipality of Metropolitan Toronto	$ 257	$ 287
Province of Ontario	10,658	9,706
Canada Mortgage and Housing Corporation	11,467	10,221
Other	680	665
	$ 23,062	$ 20,879

5. HOUSING PROJECTS

This consists of:

	January 1	Additions during the year	December 31
		(in thousands)	
Land	$ 37,222	$ 5,058	$ 42,280
Buildings	242,202	38,207	280,409
Equipment	5,364	882	6,246
	284,788	44,147	328,935
Net operating expense prior to completion date (Schedule 1)	4,863	(160)	4,703
	289,651	43,987	333,638
Less:			
Grants from Federal Government	3,647	16	3,663
Grants from Province of Ontario	5,370		5,370
Grants from Atkinson Charitable Foundation	74		74
	9,091	16	9,107
	280,560	43,971	324,531
Less:			
Accumulated depreciation	5,059	836	5,895
	$ 275,501	$ 43,135	$ 318,636

6. ACCOUNTS PAYABLE

This consists of:

	1983	1982
	(in thousands)	
Municipality of Metropolitan Toronto	$ 3,786	$ 3,945
Province of Ontario	199	171
Canada Mortgage and Housing Corporation	17,499	17,405
Other	4,984	3,294
	$ 26,468	$ 24,815

7. PROJECT FINANCING

This consists of:

	January 1	Additions (repayments) during the year	December 31
		(in thousands)	
Loans payable to Municipality of Metropolitan Toronto			
Temporary	$ 24,477	$ (6,013)	$ 18,464
Long term	23,775	895	24,670
Mortgage Loans payable to Canada Mortgage and Housing Corporation	197,950	419	198,369
Others	23,831	49,548	73,379
Payable to contractors and others	5,312	(1,584)	3,728
	$ 275,345	$ 43,265	$ 318,610

7. PROJECT FINANCING (cont'd)

Principal payments are due as follows:

	Municipality of Metropolitan Toronto	Canada Mortgage & Housing Corporation	Other	Total
		(in thousands)		
1984	$ 55	$ 586	$ 38	$ 679
1985	59	644	114	817
1986	65	691	129	885
1987	70	742	146	958
1988	77	796	166	1,039
1989 to 2032	24,399	195,496	72,824	292,719
	24,725	198,955	73,417	297,097
Less current Portion	55	586	38	679
	$ 24,670	$ 198,369	$ 73,379	$ 296,418
Range of Interest Rates (%)	3.5 - 16	3.5 - 11	10.7 - 17	
Average Interest Rates (%)	9	9	14	

Permanent long-term financing is arranged for each housing project at the commencement of construction. Temporary loans and amounts payable to contractors and others are classified as project financing and excluded from current liabilities since these obligations will be repaid from funds advanced under the agreements for permanent financing.

The portion of long-term loans and mortgages due and payable within one year is included in current liabilities.

8. OPERATING SUBSIDIES

Under the terms of agreements with Canada Mortgage and Housing Corporation and the Province of Ontario, the Company receives subsidies to recover its operating losses on all except three non-profit housing projects. In determining operating losses eligible for subsidy under these agreements, the costs of services which are not specifically related to the provision of housing are excluded. Losses in 1983 on the provision of food and cafeteria services in three projects are recoverable from the Metropolitan Corporation. The operating profits from a commercial mall on one project and the recovery of prior year's losses on the non-profit projects mentioned above resulted in net profit of $150,000 for the year.

9. CONTRACTUAL OBLIGATIONS

The Company is obligated under the terms of the leases to pay annual rentals of $340,678 to 1986, $25,006 to 1991 and $24,506 to 2024.

As at December 31, 1983, the Company was contractually committed to make expenditures of $11,329,000 for capital assets not yet acquired and not included in the financial statements.

The Company finances its housing projects with a combination of mortgage loans from or guaranteed by Canada Mortgage and Housing Corporation and loans from its shareholder, the Metropolitan Corporation.

10. VESTED SICK LEAVE BENEFITS

Under the sick leave benefit plan of the Municipality, unused sick leave can accumulate, and employees, including employees of the Housing Company, may become entitled to a cash payment when they leave the Municipality's employment.

In 1982, the Municipality of Metropolitan Toronto established a Corporate Sick Pay Reserve Fund in its own accounts to cover payouts to employees, including those of the Housing Company, such that contributions to the fund are sufficient to offset expected payouts over a given period of time.

For the purpose of establishing the level of this fund, projections are required to be made over a forecast period of ten years, such projection process being repeated every two years. It is anticipated that this process will stabilize the financial impact on the Housing Company in respect of future payment of vested sick leave benefits. Based on the latest projections, the contributions of the Housing Company to the Corporate Sick Pay Reserve Fund are anticipated to amount to $175,000 for the years 1984 - 1986, $277,000 for the years 1987 - 1989, and $361,000 for the years 1990 to 1992. Such contributions will discharge any liability of the Housing Company in this regard.

Accordingly, an amount of $99,000 was paid by the Housing Company to the Metropolitan Corporation as at the end of 1983 and set up in the Corporate Reserve Fund in the accounts of the Municipality.

11. RESIDENTIAL TENANCIES ACT

Under the Residential Tenancies Act enacted August 17, 1979, residential premises situated in a residential complex owned, operated or administered by a municipality or any agency thereof, were exempted from residential rent controls.

12. CONTINGENT LIABILITY

The Company, together with its architect and consulting engineer, is a defendant in an action for $1,987,000 for costs and damages allegedly sustained and amounts still due under the contract with the general contractor on one of its projects. The Company is also named in a Third Party action with others in connection with an action against the general contractor. The amount of this action against all parties is approximately $3,596,000. The Company is defending these claims and no provision has been made in the accounts except for approximately $49,994 recorded as owing under the contract. In the opinion of legal counsel these actions may be settled for a considerably lesser amount.

13. COMPARATIVE FIGURES

Certain of the 1982 figures presented here for comparative purposes have been reclassified to conform with the current year's presentation.

POOR

QUALITY

ORIGINAL